

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 CIAE-00 COME-00 EB-07 INR-07 LAB-04

NSAE-00 SP-02 STR-04 TRSE-00 CIEP-02 FRB-01 OMB-01

L-03 /044 W

----- 032105

R 121458Z APR 76

FM AMEMBASSY LONDON

INFO RUEHC/SECSTATE WASHDC 0703

USMISSION EC BRUSSELS

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FOLLOWING SENT ACTION USDA/FAS PRIORITY 07 APR 76

REPEATED FOR YOUR INFO. QUOTE

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FROM AGATTACHE FOR ANDREWS

E.O. 11652: N/A

SUBJECT: UK 1976 BUDGET TOBACCO TAXATION CHANGES

TOFAS 150

BEGIN SUMMARY. IN UK 1976 BUDGET ANNOUNCED APRIL 6 FAR REACHING CHANGES ARE MADE IN STRUCTURE OF UK TOBACCO TAXATION INCLUDING A NEW EXCISE TAX AND A CUT IN THE SPECIFIC ELEMENT OF EXISTING CUSTOMS AND EXCISE REVENUE DUTY. THE EFFECT WILL BE TO RAISE RETAIL CIGARETTE PRICES BY 3-J 1/2 PENCE PER PACKET OF 20 BUT LEAVE PIPE TOBACCO PRICES UNALTERED. CHANCELLOR OPENLY ACKNOWLEDGED CHARGE IN TAX STRUCTURE WAS PARTLY INFLUENCED BY HEALTH FACTOR BUT BEGINNING OF ALIGNMENT TO EC SYSTEM IS THE MAJOR REASON. TOBACCO COMPANIES MOSTLY WELCOME THE CHANGES IN TAX STRUCTURE BECAUSE OF BOOST TO THEIR CASH FLOWS. END SUMMARY.

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1. TOBACCO TAXATION CHANGES TAKE EFFECT MAY 10. THERE

SHALL BE CHARGED ON TOBACCO PRODUCTS MANUFACTURED OR,
OR IMPORTED INTO, THE UK A NEW DUTY OF EXCISE AT THE
FOLLOWING RATES:

- I) CIGARETTES: 20 PERCENT OF THE RETAIL PRICE
- II) CIGARS: 2.765 POUNDS PER LB.
- III) HAND-ROLLING TOBACCO: 2.400 POUNDS PER LB.
- IV) OTHER SMOKING AND CHEWING TOBACCO: 1.550 POUNDS
PER LB.

POWERS WILL BE TAKEN TO ENABLE THESE RATES TO BE VARIED
BY ORDER.

2. AT THE SAME TIME THE RATES OF EXISTING CUSTOMS AND
EXCISE REVENUE DUTY WILL BE ABATED BY L.855 POUNDS PER LB.
AS AN EXAMPLE, ON ITEM 24.01A.I.(A)1 GOES DOWN FROM
.6870 POUNDS PER LB. PLUS 11.2 PERCENT AT THE FULL RATE
TO 5.8320 POUNDS PER LB. PLUS 11.2 PERCENT. THE C1
COMMONWEALTH PREFERENCE RATE FALLS FROM 7.6716 POUNDS
PER LB. PLUS 11.2 PERCENT TO 5.8166 POUNDS PER LB. PLUS
11.2 PERCENT AND THE EC (M) RATE FALLS FROM 7.6870 POUNDS
PER LB. TO 2.8320 POUNDS PER LB.

3. THE STANDARD RATE OF VAT REMAINS AT 8 PERCENT.

4. IN HIS BUDGET STATEMENT, CHANCELLOR UEALEY SAID
PRESENT TOBACCO DUTY IS CHARGED BASICALLY ON THE WEIGHT
OF UNMANUFACTURED LEAF WHICH HAS TWO DISADVANTAGES.
FIRST, THE REAL BURDEN OF THE SPECIFIC DUTY FALLS AT
TIMES OF INFLATION GIVING A WELCOME BOOST TO
CONSUMPTION OF A PRODUCT DANGEROUS TO HEALTH. SECOND,
BECAUSE THE DUTY FALLS ON UNMANUFACTURED LEAF IT IS NOT
POSSIBLE TO DISCRIMINATE BETWEEN DIFFERENT TYPES OF
SMOKING PRODUCT. FURTHER. UNDER EC OBLIGATIONS UK HAS TO
REPLACE THE TAX BASED ON UNMANUFACTURED LEAF TO ONE OR
THE FINISHED PRODUCT. ON CIGARETTES, THE DUTY IS TO BE
LEVIED PARTLY AS A PROPORTION OF THE RETAIL PRICE AND
PARTLY ON THE NUMBER OF CIGARETTES BUT TO INTRODUCE THIS
NEW TAX BASIS OVER NIGHT AT THE END OF 1977 WOULD
DISTURB THE MARKET TO AN UNACCEPTABLE DEGREE. THIS IS
WHY IN THIS BUDGET ONLY A PART OF THE EXISTING SPECIFIC
DUTY IS BEING REPLACED BY AN EXCISE DUTY ON THE FINISHED
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PRODUCT. AT THE FINAL STAGE THE DUTY ON CIGARETTES
SHOULD BE PREDOMINANTLY AD VALOREM. THE NEW 20 PERCENT
EXCISE DUTY WILL PRODUCE A NET INCREASE IN THE TOTAL
YIELD FROM TOBACCO TAXATION. ON MOST POPULAR BRANDS OF
CIGARETTES THE TAX BURDEN WILL RAISE THE RETAIL PRICE BY
3 OR 3 1/2 PENCE PER PACKET OF 20. CHANCELLOR SAID HE
MADE NO APOLOGY FOR THIS INCREASE BECAUSE OF CONCERN
ABOUT HEALTH.

5. ON OTHER TOBACCO PRODUCTS ADMINISTRATIVE DIFFICULTIES INVOLVED IN CHARGING AN AD VALOREM DUTY AT THIS TIME MEAN THAT THE NEW EXCISE DUTY WILL BE BASED ON WEIGHT. FOR CIGARS AND HAND-ROLLING TOBACCO THE EFFECT OF THE NEW DUTY AND THE CUT IN THE SPECIFIC ELEMENT OF EXISTING DUTIES WILL BE TO RAISE THEIR PRICES IN LINE WITH THOSE WITH CIGARETTES. THERE WILL, HOWEVER, BE NO OVERALL INCREASE IN THE AVERAGE TAX BURDEN ON PIPE TOBACCO WHICH IS PROBABLY THE LEAST HAZARDOUS FORM OF SMOKING.

6. TO GIVE TIME FOR THE ADMINISTRATIVE ARRANGEMENTS INVOLVED THE CHARGES WILL COME INTO EFFECT FROM MAY 10.

7. THE NET INCREASE IN THE TAX YIELD INCLUDING THE CONSEQUENTIAL VAT EFFECTS WILL BE 115 MILLION POUNDS IN A FULL YEAR RAISING THE TOTAL YIELD FROM TOBACCO REVENUE IN THE YEAR ENDING MARCH 1977 TO 1,800 MILLION POUNDS.

8. WHILE TOBACCO MANUFACTURERS ARE NATURALLY UNHAPPY ABOUT ANY INCREASE IN TOBACCO TAXATION, THEY ARE PLEASED ON THE WHOLE ABOUT THE SHIFT OF SOME OF THE BURDEN FROM THE SPECIFIC DUTY LEVIED ON TOBACCO TAKEN OUT OF BOND TO AN EXCISE DUTY LEVIED ON THE FINAL PRODUCT. IN THE OLD SYSTEM THE MANUFACTURER HAD TO PAY THE TAX AT THE BEGINNING OF THE MANUFACTURING PROCESS, BEARING THE TAX BURDEN THEMSELVES AT GREAT COST UNTIL RECOUPMENT AT THE POINT OF SALE OF TOBACCO MANUFACTURES. THE NEW SYSTEM REDUCES THIS BURDEN FOR THE MANUFACTURERS AND WILL GIVE AN IMMEDIATE BOOST TO THEIR CASH FLOWS.

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9. THE CHANCELLOR SAID THAT THE TOBACCO TAX CHANGES TOGETHER WITH THOSE ON BEER, WINES AND SPIRITS WILL ADD ABOUT 0.75 PERCENT TO THE RETAIL PRICE INDEX.

10. WHILE INITIALLY THERE IS BOUND TO BE SOME CUTBACK IN CIGARETTE SMOKING IT IS NOT THOUGH LIKELY TO BE SIGNIFICANT OR LONG LASTING. AN INCREASE OF 3-3 1/2 PENCE PER PACKET AT RETAIL IS ONLY IN THE REGION OF 7-8 PERCENT WHICH IS WELL BELOW THE CURRENT RATE OF INFLATION. IN THE LONGER TERM, HOWEVER, THERE IS THE FACT THAT THE GOVERNMENT INTENDS TO TAKE POWERS TO RAISE THE 20 PERCENT EXCISE RATE AT ANY TIME, THE FALL IN THE VALUE OF STERLING IS ALREADY INCREASING THE IMPORT PRICE OF LEAF TOBACCO SO THAT THE COMPANIES MAY BE OBLIGED TO RAISE THE PRICES ADDITIONALLY TO THE TAX INCREASE BEFORE LONG

AND THE INTENTION TO MAKE EVER MORE STRINGENT PAY POLICY
IR 1976-77 WILL RESTRICT PURCHASING POWER STILL FURTHER
UNLESS THE RATE OF INFLATION CAN BE BROUGHT DOWN MUCH
MORE THAN HAS ALREADY BEEN ACHIEVED.
ARMSTRONG

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: GOVERNMENT BUDGET, TOBACCO, EXCISE TAXES
Control Number: n/a
Copy: SINGLE
Draft Date: 12 APR 1976
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: n/a
Disposition Approved on Date:
Disposition Authority: n/a
Disposition Case Number: n/a
Disposition Comment:
Disposition Date: 01 JAN 1960
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1976LONDON05345
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Film Number: D760138-0397
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1976/newtext/t19760472/aaaacjgb.tel
Line Count: 174
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EUR
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: oatisao
Review Comment: n/a
Review Content Flags:
Review Date: 21 JUN 2004
Review Event:
Review Exemptions: n/a
Review History: RELEASED <21 JUN 2004 by SilvaL0>; APPROVED <30 AUG 2004 by oatisao>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
04 MAY 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: UK 1976 BUDGET TOBACCO TAXATION CHANGES TOFAS 150
TAGS: PGOV, EFIN, UK
To: n/a
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 04 MAY 2006